

**NORTH COUNTY LIBRARY AUTHORITY
LOS ALTOS, CALIFORNIA**

**BASIC FINANCIAL STATEMENTS AND
INDEPENDENT AUDITORS' REPORT**

Fiscal Year Ended June 30, 2012

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NORTH COUNTY LIBRARY AUTHORITY

BASIC FINANCIAL STATEMENTS

Fiscal year ended June 30, 2012

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
of the North County Library Authority
Los Altos, California

We have audited the accompanying financial statements of the governmental activities and each major fund of the North County Library Authority (the Authority) as of and for the year ended June 30, 2012, which collectively comprise the Authority's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the Authority as of June 30, 2012, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 28, 2013, on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

To the Board of Directors
of the North County Library Authority
Los Altos, California
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Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 3 through 5 and 29 through 30 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Burr Pilger Mayer, Inc.

San Jose, California
January 28, 2013

**North County Library Authority
Management's Discussion and Analysis
Fiscal Year Ended June 30, 2012**

The North County Library Authority (NCLA) prepares its financial statements using the financial reporting requirements prescribed by the Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*. The purpose of the Management's Discussion and Analysis (MD&A) is to provide users with a narrative introduction, overview, and analysis of the financial statements.

FINANCIAL HIGHLIGHTS:

- Net Assets is positive and has increased to \$1,042,567 at year end, an increase of nearly \$500,000 projected as part of the long term plan.
- The total liabilities have decreased by \$330,000 given the final retirement of principal of the Special Tax Bonds issued in 1991.
- Interest revenue continues to experience historic low levels of yield given persistent market conditions.
- On June 8, 2010, the voters of Los Altos and Los Altos Hills approved a renewal of the parcel tax at \$76 per parcel for a twenty year term. The measure received 77% support ensuring continued service levels at both Library branches. No issuance of debt was associated with this funding which is to be applied to library hours at both the Main Branch & Woodland, books, materials, programming and general purposes. This important measure allowed for the continued maintenance of augmented hours of operation and resulted in increased revenues of over \$300,000 per year. This places fund projections in good standing.
- Total salary and administration fell below last year's levels and were approximately \$21,000 under budget projections. The FY 2011/12 expenditures also reinstated \$65,000 in book funding, an item that was deferred in the prior year. This being considered, operational expenditures were down significantly. With this level of expenditure, location service hours were maintained including annually updated County labor costs and the full standard books donation levels.
- In May 2005, Measure A was presented countywide to the voters and passed with 72% of the vote. The tax will continue the same level of funding as the prior tax with a slight increase through 2015 for those Santa Clara County cities participating in the Library Joint Powers Authority. This tax is expected to provide approximately \$5.4 million for the countywide Joint Powers Authority in annual revenue enabling the library to maintain countywide service levels comparable to prior years.

Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to the NCLA's basic financial statements that include the Government-Wide Financial Statements and the Fund Financial Statements.

The ***Government-Wide Financial Statements*** are designed to provide readers with a broad overview of NCLA's finances, in a manner similar to a private-sector business. They are comprised of the *Statement of Net Assets* and the *Statement of Activities and Changes in Net Assets*.

The *Statement of Net Assets* provides information about NCLA’s assets and liabilities, including all long-term obligations. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of NCLA is improving or deteriorating.

The *Statement of Activities and Changes in Net Assets* provides information showing how NCLA’s net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows.

The ***Fund Financial Statements*** is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. NCLA’s Fund Financial Statements contain only *Governmental Funds*.

Unlike the Government-Wide Financial Statements, the *Governmental Funds* focus on how money flows into and out of those funds and the balances remaining at year-end. These funds are reported using the modified accrual basis of accounting, which measures cash and all other financial assets that are readily converted cash. The fund statements provide a detailed short-term view of NCLA’s general operations and the basic services it provides. These statements do not include long-term assets or liabilities.

GASB 54 Compliance: This report marks the second and timely year of compliance with the provisions of Government Accounting Standard Board Statement No.54 (GASB 54). Council adopted an updated financial policy earlier this year reflective of this change, a significant one for the readers and users of our financial statements. The objective of this Statement is to enhance the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. This Statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

<i>NCLA Net Assets</i>		
	Government-Wide Activities	
	06/30/12	06/30/11
Current Assets	1,276,109	1,139,419
Current Liabilities	233,542	576,391
Total Liabilities	233,542	576,391
Net Assets Restricted for Debt Service	0	338,663
Unrestricted Net Assets	1,042,567	224,365
Total Net Assets	1,042,567	563,028

Total Net Assets was \$1,042,567 at the end of this fiscal year, a significant gain over the prior year given expenses coming in under budget, the absence of debt service and the renewal of the 2010 \$76 parcel tax. This improvement in fiscal metrics is in line with long term projections constructed in the budgetary planning process. NCLA has the authority to continue to levy the special parcel tax annually in accordance with its mission to support library services in Los Altos and Los Altos Hills.

FY 2011-2012 marks the final year with activity in the debt service fund with the retirement of debt.

NCLA Activities & Changes in Net Assets

	Government Wide Activities	
	06/30/12	06/30/11
Revenues		
Program Revenues		
Charges for Services	1,029,885	1,034,625
General Revenues		
Interest Income	<u>1,420</u>	<u>5,239</u>
Total Revenues	1,031,305	1,039,864
Expenses		
Administration and Community Services	550,325	566,542
Interest on Long-Term Activities	1,441	19,424
Total Expenses	551,766	585,966
Change in Net Assets	479,539	453,898
Beginning Net Assets	563,028	109,130
Ending Net Asset	1,042,567	563,028

Program revenue reflect the new parcel tax base while the total expenses have remained stable and in compliance with budgetary limits.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

- With the expiration of the legacy per parcel tax and its renewal at a maximum level of \$76, NCLA's revenue is projected to sustain twenty years of continued expanded levels of service. Final bond debt service requirements have been funded in full and new assessments are adequate to fund future operations over the long term. In so far as NCLA labor costs are derived from County services, the implementation of cost control measures at the County level, as noted this year in the operating results, remains a key assumption.
- NCLA will continue to supplement funding to provide an additional 12 operational hours per week at the Central Library and, in the current year, has increased hours at the Woodland library to 19 hours of additional service. In the fiscal year 2012-2013 budget, NCLA maintained its book budget contribution to \$65,000 and adjusted its operational budget to reflect cost savings brought forward by the Santa Clara County Library System.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of NCLA's finances for all those who are interested. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the North County Library Authority, One North San Antonio Road, Los Altos, CA 94022.

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BASIC FINANCIAL STATEMENTS

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GOVERNMENTS-WIDE FINANCIAL STATEMENTS

NORTH COUNTY LIBRARY AUTHORITY

STATEMENT OF NET ASSETS

June 30, 2012

	ASSETS	<u>Governmental Activities</u>
Current assets:		
Cash and investments		\$ 1,275,527
Interest receivable		<u>582</u>
Total assets		<u>1,276,109</u>
	LIABILITIES	
Current liabilities:		
Accounts payable		<u>233,542</u>
Total liabilities		<u>233,542</u>
	NET ASSETS	
Unrestricted		<u>1,042,567</u>
Total net assets		<u><u>\$ 1,042,567</u></u>

The accompanying notes are an integral part of these financial statements.

NORTH COUNTY LIBRARY AUTHORITY
STATEMENT OF ACTIVITIES AND CHANGE IN NET ASSETS

Fiscal year ended June 30, 2012

	Expenses	Program Revenues Charges for Services	Net (Expense) Revenue and Change in Net Assets Governmental Activities
Primary government:			
Governmental activities:			
Administration and community services	\$ 550,325	\$ 1,029,885	\$ 479,560
Interest on debt	1,441	-	(1,441)
	<u>\$ 551,766</u>	<u>\$ 1,029,885</u>	<u>478,119</u>
General revenues:			
Interest income			1,420
Total general revenues			1,420
Change in net assets			479,539
Net assets, beginning of year			563,028
Net assets, end of year			\$ 1,042,567

The accompanying notes are an integral part of these financial statements.

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FUND FINANCIAL STATEMENTS

NORTH COUNTY LIBRARY AUTHORITY

GOVERNMENTAL FUNDS

BALANCE SHEET

June 30, 2012

	<u>General</u>	<u>Debt Service</u>	<u>Total</u>
ASSETS			
Assets:			
Cash and investments	\$ 1,275,527	\$ -	\$ 1,275,527
Interest receivable	582	-	582
	<u>1,276,109</u>	<u>-</u>	<u>1,276,109</u>
Total assets	<u>\$ 1,276,109</u>	<u>\$ -</u>	<u>\$ 1,276,109</u>
 LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	\$ 233,542	\$ -	\$ 233,542
	<u>233,542</u>	<u>-</u>	<u>233,542</u>
Total liabilities	<u>233,542</u>	<u>-</u>	<u>233,542</u>
Fund balances:			
Unassigned	<u>1,042,567</u>	<u>-</u>	<u>1,042,567</u>
Total fund balances	<u>1,042,567</u>	<u>-</u>	<u>1,042,567</u>
Total liabilities and fund balances	<u>\$ 1,276,109</u>	<u>\$ -</u>	<u>\$ 1,276,109</u>

The accompanying notes are an integral part of these financial statements.

NORTH COUNTY LIBRARY AUTHORITY
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE GOVERNMENT-WIDE STATEMENT OF NET ASSETS

June 30, 2012

Fund balances of governmental funds	\$ 1,042,567
No reconciling items	<u>-</u>
Net assets of governmental activities	<u><u>\$ 1,042,567</u></u>

The accompanying notes are an integral part of these financial statements.

NORTH COUNTY LIBRARY AUTHORITY

GOVERNMENTAL FUNDS

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES

Fiscal year ended June 30, 2012

	General	Debt Service	Total
Revenues:			
Taxes and special assessments	\$ 1,029,885	\$ -	\$ 1,029,885
Interest	392	1,028	1,420
Total revenues	1,030,277	1,028	1,031,305
Expenditures:			
Operations:			
Salaries and wages	464,271	-	464,271
Miscellaneous	86,054	-	86,054
Debt service:			
Principal payments	-	330,000	330,000
Interest and fiscal charges	-	8,660	8,660
Total expenditures	550,325	338,660	888,985
Excess (deficiency) of revenues over (under) expenditures	479,952	(337,632)	142,320
Other financings sources (uses):			
Transfers in	-	330,815	330,815
Transfers out	(330,815)	-	(330,815)
Total other financing sources and uses	(330,815)	330,815	-
Net change in fund balances	149,137	(6,817)	142,320
Fund balances, beginning of year	893,430	6,817	900,247
Fund balances, end of year	\$ 1,042,567	\$ -	\$ 1,042,567

The accompanying notes are an integral part of these financial statements.

NORTH COUNTY LIBRARY AUTHORITY

**RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES TO THE GOVERNMENT-WIDE
STATEMENT OF ACTIVITIES AND CHANGE IN NET ASSETS**

Fiscal year ended June 30, 2012

	<u>Governmental Activities</u>
Net Change in Fund Balances - Total Governmental Funds	\$ 142,320
 Amounts reported for governmental activities in the statement of activities are different because:	
Repayment of bond principal is an expenditure in governmental funds, but the repayment reduces long-term liabilities in the government-wide statement of net assets.	330,000
Interest expense on long-term debt is reported in the government-wide statement of activities and changes in net assets, but it does not require the use of current financial resources. Therefore, interest expense was not reported as an expenditure in governmental funds. The following amount represents the change in accrued interest from the prior year.	<u>7,219</u>
Change in net assets	<u><u>\$ 479,539</u></u>

The accompanying notes are an integral part of these financial statements.

NORTH COUNTY LIBRARY AUTHORITY

NOTES TO BASIC FINANCIAL STATEMENTS

Fiscal year ended June 30, 2012

1. Summary of Significant Accounting Policies

(a) Reporting Entity

The North County Library Authority (Authority), formed in 1985 by a joint exercise of powers agreement between the City of Los Altos (City) and the Town of Los Altos Hills, provides library services for member residents. The Authority was created to provide financing for capital improvements and additional services by the public libraries serving the area. Although the City owns the libraries and their sites, the County of Santa Clara (County) is responsible for all library operations. However, since 1991, the Authority has levied a voter approved special parcel tax to compensate for service reductions due to cutbacks by the County. The special tax has been collected by the County, transferred to the City, on behalf of the Authority, and then transferred back to the County for the specifically requested services provided by the libraries within the Authority's service area. The City performs administrative and accounting services for the Authority.

(b) Measurement Focus, Basis of Accounting and Basis of Presentation

Government-Wide Financial Statements

The Authority's government-wide financial statements include a statement of net assets and a statement of activities and changes in net assets. These statements present summaries of governmental activities for the Authority.

These basic financial statements are presented on an "*economic resources*" measurement focus and the accrual basis of accounting. Accordingly, all of the Authority's assets and liabilities, including long-term liabilities, are included in the accompanying statement of net assets. The statement of activities and changes in net assets presents changes in net assets. Under the accrual basis of accounting, revenues are recognized in the period in which they are earned while expenses are recognized in the period in which the liability is incurred.

Certain types of transactions are reported as program revenues for the Authority in three categories:

- Charges for services
- Operating grants and contributions
- Capital grants and contributions

Certain eliminations have been made as prescribed by Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*, in regard to interfund activities, payables and receivables. All internal balances in the statement of net assets are eliminated when applicable.

Governmental Fund Financial Statements

Description of Funds

The accounts of the Authority are organized and operated on the basis of funds, each of which is defined as separate fiscal and accounting entity with a self-balancing set of accounts. These funds are established for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions or limitations.

NORTH COUNTY LIBRARY AUTHORITY

NOTES TO BASIC FINANCIAL STATEMENTS

Fiscal year ended June 30, 2012

1. Summary of Significant Accounting Policies, continued

(b) Measurement Focus, Basis of Accounting and Basis of Presentation, continued

Governmental Fund Financial Statements, continued

In accordance with Authority's adopted policies and budget, different types of funds are used to record the Authority's financial transactions. For financial reporting purposes, the Authority's funds are presented as follows:

Governmental Fund Types:

General Fund - The purpose of this fund is to account for all financial resources except those required to be accounted for in another fund. The general fund is required to be presented as a major fund.

Debt Service Fund - The purpose of this fund is to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest, and related costs. Due to its significance, the fund is presented as a major fund.

The accounting and reporting treatment applied to a fund is determined by its measurement focus. All governmental funds are accounted for on a "current financial resource" measurement focus. Accordingly, only current assets and current liabilities are generally included on the balance sheet. Governmental fund operating statements present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets.

All governmental fund types are accounted for using the modified accrual basis of accounting, wherein revenues are recognized in the accounting period in which they become measurable and available to pay liabilities of the current period. Measurable means the amount of the transaction can be determined and available means collectable within the current period or soon enough thereafter to be used to pay liabilities of the current period.

Revenues considered susceptible to accrual include property taxes (generally due within 60 days), charges for services, federal and state grants and interest. Expenditures, are recognized in the accounting period in which the fund liability is incurred, if measurable, except for principle and interest on general long-term debt which is recognized when due.

(c) Assets, Liabilities and Equity

Cash and Investments

The Authority pools cash resources from all funds in order to facilitate the management of cash and achieve the goal of obtaining the highest yield with the greatest safety and least risk. The balance in the pooled cash account is available to meet current operating requirements. Cash in excess of current requirements may be invested in various interest-bearing accounts and other investments for varying terms. The cash balance at June 30, 2012 is maintained in the City Treasury and the Local Agency Investment Fund (LAIF) of the State of California.

The Authority participates in an investment pool managed by the State of California, titled LAIF, which has invested a portion of the pool funds in structured notes and assets-backed securities. LAIF's investments are subject to credit risk with the full faith and credit of the State of California collateralizing these investments. In addition, these structured notes and assets-backed securities are subject to market risk as to change in interest risk.

NORTH COUNTY LIBRARY AUTHORITY

NOTES TO BASIC FINANCIAL STATEMENTS

Fiscal year ended June 30, 2012

1. Summary of Significant Accounting Policies, continued

(c) *Assets, Liabilities and Equity, continued*

Investment Valuation

Highly liquid money market investments with maturities of one year or less at time of purchase are stated at amortized cost. All other investments are stated at fair value in accordance with GASB No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. Market value is used as fair value for those securities for which market quotations are readily available.

(d) *Net Assets and Fund Balances*

Government-Wide Financial Statements

In the government-wide financial statements, net assets are classified in the following categories:

Restricted Net Assets - This amount is restricted by external creditors, grantors, contributions, or laws or regulations of other governments.

Unrestricted Net Assets - This amount is all net assets that do not meet the definition of "invested in capital assets, net of related debt" or "restricted net assets."

Fund Financial Statements

The Authority reclassifies fund balances into the following five categories to comply with the GASB No. 54, *Fund Balance and Governmental Fund Types*. Fund balance is defined as the difference between assets and liabilities.

Nonspendable fund balances will include amounts that cannot be spent because they are either in nonspendable form or they are legally required to be maintained intact. Examples of nonspendable fund balances include inventory and prepaid items.

Restricted fund balances will exist when constraints are placed on the use of those resources that are either externally imposed or imposed by law. In general, most reserve funds will fall into this category. The Authority reported no fund balances as restricted on the balance sheet of the governmental funds.

Committed fund balances are amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the government's highest level of decision making authority (Governing Board or Council).

Assigned fund balances will be amounts that are constrained by the government's intent to be used for specific purposes, but are neither restricted, nor committed. The intent can be made by either the governing body itself or a body or official to which the governing body has delegated the authority to (purchasing agent and business official). Appropriated fund balance and the majority of encumbrances will be reclassified into the assigned category. The Authority reported no fund balances as assigned on the balance sheet of the governmental funds.

Unassigned fund balances will represent those funds that have not been assigned, committed, restricted or considered nonspendable. The general fund will be the only fund that will report an unassigned fund balance, unless a deficit fund balance resulting from overspending in other funds exist. Fund balance in other funds will either be assigned, committed, restricted or nonspendable unless the fund reports a deficit.

NORTH COUNTY LIBRARY AUTHORITY

NOTES TO BASIC FINANCIAL STATEMENTS

Fiscal year ended June 30, 2012

1. Summary of Significant Accounting Policies, continued

(e) Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires Authority management to make estimates and assumptions that affect certain amounts and disclosures. Accordingly, actual results could differ from those estimates.

2. Cash and Investments

(a) Summary of Cash and Investments

The City is responsible as the fiduciary of the Authority to manage investments on behalf of the Authority. The investments made by the City Treasurer are limited to those allowable under state statutes as incorporated into the City's Investments Policy that is even more conservative than that allowed by State statute. The City's Investment Policy and the California Government Code allow for a variety of investments, which can be purchased and held.

Cash and investments as of June 30, 2012 consists of the following:

Cash pooled with City of Los Altos	\$	620,066
Investments - LAIF		655,461
Total cash and investments	\$	1,275,527

(b) Investments

The table below identifies the investment types that are authorized for the Authority by the California Government Code and the Authority's Investment Policy where more restrictive. The table also identifies certain provisions that address interest rate risk, credit risk, and concentration of credit risk.

Authorized Investment Type	Maximum Remaining Maturity	Minimum Credit Quality	Maximum Percentage of Portfolio	Maximum Investment in One Issuer
U.S. Treasury Obligations	5 years	None	None	None
U.S. Agency Securities	5 years	None	30%	None
Bankers' Acceptances	180 days	None	30%	30%
Commercial Paper	180 days	A1/P1/F1	15%	10%
Negotiable Certificates of Deposit	3 years	AA	50%	\$100,000
Repurchase Agreements	15 days	None	30%	None
Mutual Funds	N/A	AAAm	30%	10%
Local Agency Investment Fund (LAIF)	N/A	None	None	None

NORTH COUNTY LIBRARY AUTHORITY

NOTES TO BASIC FINANCIAL STATEMENTS

Fiscal year ended June 30, 2012

2. Cash and Investments, continued

(c) Risk Disclosures

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market rates. Typically, the Authority manages its exposure to interest rate risk by investing in LAIF and Money Market Mutual funds. The Authority monitors the interest rate risk inherent in its portfolio by measuring the weighted average maturity of its portfolio. The Authority has no specific limitations with respect to this metric.

<u>Investment Type</u>	<u>Fair Value</u>	<u>Maturity In Years</u> <u>1 year or less</u>
State Investment Pool	<u>\$ 620,066</u>	<u>\$ 620,066</u>

Credit Risk

Credit risk is the risk that a security or a portfolio will lose some or all of its value due to a real or perceived change in the ability of the issuer to repay its debt. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. LAIF was unrated at June 30, 2012.

Concentration of Credit Risk

The investment policy of the Authority contains no limitations on the amount that can be invested in any one issuer beyond that stipulated by the California Government Code. There are no investments in any one issuer that represent 5% or more of total Authority investments that are required to be disclosed.

Custodial Credit Risk - Deposits

This is the risk that in the event of a bank failure, the Authority's deposits may not be returned to it. The Authority does not have a policy for custodial credit risk for deposits. However, the California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure public deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits and letters of credit issued by the Federal Home Loan Bank of San Francisco having a value of 105% of the secured deposits. As of June 30, 2012, the Authority's bank balance was either insured or collateralized, but the collateral was not held specifically in the Authority's name.

NORTH COUNTY LIBRARY AUTHORITY

NOTES TO BASIC FINANCIAL STATEMENTS

Fiscal year ended June 30, 2012

2. Cash and Investments, continued

(c) Risk Disclosures, continued

Custodial Credit Risk - Investments

The custodial credit risk for investments is the risk that in the event of the failure of the counterparty (e.g. broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The California Government Code and the City's Investment Policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for investments.

Investment in State Investment Pool

The Authority is a voluntary participant in the LAIF, which is regulated by the California Government Code under the oversight of the Treasurer of the State of California. The fair value of the Authority's investment in this pool is reported in the accompanying financial statements and amounts are based upon the Authority's pro-rata share of the fair value provided by LAIF for the entire LAIF portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis.

As of June 30, 2012, the Authority held \$655,461 in LAIF, which had invested 2.75% of the pool investment funds in structured notes and asset-backed securities as compared to 5.01% in the previous year. The LAIF fair value factor of 1.001219643 was used to calculate the fair value of the investments in LAIF.

3. Special Tax Bonds

On October 1, 1991, the Authority issued \$3,645,000 of Special Tax Bonds (Bonds). These proceeds were used to finance the expansion and remodeling of the main library in the City. The Bonds bear interest at 5.25% to 8.25% payable semi-annually on February 1 and August 1. Principal is due serially each August 1 until August 1, 2011, and as of the date of this report all outstanding principal was paid in full.

The following is a summary of changes in long-term debt for the year ended June 30, 2012:

	<u>Balance at July 1, 2011</u>	<u>Payments</u>	<u>Balance at June 30, 2012</u>
Special Tax Bonds	<u>\$ 330,000</u>	<u>\$ 330,000</u>	<u>\$ -</u>

The Bonds were payable solely from a parcel tax on property within the Authority's boundaries.

NORTH COUNTY LIBRARY AUTHORITY

NOTES TO BASIC FINANCIAL STATEMENTS

Fiscal year ended June 30, 2012

4. Subsequent Events

The Authority evaluated subsequent events for recognition and disclosure through January 28, 2013, the date which these financial statements were available to be issued. Management concluded that no material subsequent events have occurred since June 30, 2012 that required recognition or disclosure in such financial statements.

REQUIRED SUPPLEMENTARY INFORMATION

NORTH COUNTY LIBRARY AUTHORITY

GENERAL FUND

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGE IN FUND BALANCES –
BUDGET AND ACTUAL**

Fiscal year ended June 30, 2012

	Budget		Actual	Variance Positive (Negative)
	Original	Final		
Revenues:				
Taxes and special assessments	\$ 1,040,000	\$ 1,040,000	\$ 1,029,885	\$ (10,115)
Interest	6,355	6,355	392	(5,963)
Total revenues	<u>1,046,355</u>	<u>1,046,355</u>	<u>1,030,277</u>	<u>(16,078)</u>
Expenditures:				
Operations:				
Salaries and wages	484,979	484,979	464,271	20,708
Miscellaneous	90,000	90,000	86,054	3,946
Total expenditures	<u>574,979</u>	<u>574,979</u>	<u>550,325</u>	<u>24,654</u>
Excess of revenues over expenditures	<u>471,376</u>	<u>471,376</u>	<u>479,952</u>	<u>8,576</u>
Other financings sources (uses):				
Transfers out	<u>(330,815)</u>	<u>(330,815)</u>	<u>(330,815)</u>	<u>-</u>
Total other financing sources (uses)	<u>(330,815)</u>	<u>(330,815)</u>	<u>(330,815)</u>	<u>-</u>
Net change in fund balance	140,561	140,561	149,137	8,576
Fund balances, beginning of year	<u>893,430</u>	<u>893,430</u>	<u>893,430</u>	<u>-</u>
Fund balances, end of year	<u>\$ 1,033,991</u>	<u>\$ 1,033,991</u>	<u>\$ 1,042,567</u>	<u>\$ 8,576</u>

NORTH COUNTY LIBRARY AUTHORITY
NOTE TO REQUIRED SUPPLEMENTARY INFORMATION

June 30, 2012

1. Budgetary Accounting

The Authority annually adopts a budget on or before June 30, for the ensuing fiscal year. From the effective date of the budget, the amounts become the "annual appropriated budget."

Appropriations lapse at the end of the fiscal year. Supplemental appropriations, which increase appropriations, may be made during the fiscal year.

Budget information is presented for governmental fund types on a consistent basis with accounting principles generally accepted in the United States of America. Budgeted revenue and expenditure amounts represent the original budget modified for adjustments during the year.

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**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

To the Board of Directors
of the North County Library Authority
Los Altos, California

We have audited the financial statements of the governmental activities and each major fund of the North County Library Authority (Authority) as of and for the year ended June 30, 2012, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated January 28, 2013. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of the Authority is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Authority's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Authority's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the Authority's financial statements will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

To the Board of Directors
of the North County Library Authority
Los Altos, California
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This report is intended solely for the information and use of management, Board of Directors, and others within the Authority and is not intended to be and should not be used by anyone other than these specified parties.

Burr Pilger Mayer, Inc.

San Jose, California
January 28, 2013